

EDUCATIONAL SERVICE DISTRICT NO. 123
Walla Walla County, Washington
September 1, 1994 Through August 31, 1995

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified

Our audit of the financial records of Educational Service District (ESD) No. 123 revealed that at least \$25,340.18 in public funds was misappropriated by the superintendent during the period July 1, 1991, through August 31, 1995. Accounting records were falsified in an attempt to conceal these losses. The schedule below summarizes these losses.

Description	<u>Amount</u>
<u>Fraudulent disbursement transactions:</u>	
Costco Wholesale purchases	\$17,655.53
Asset and merchandise purchases	3,086.57
Personal gasoline purchases	2,269.11
Personal vacation expenses	1,820.18
Unauthorized travel expenses	<u>508.79</u>
Total Losses	<u>25,340.18</u>
<u>Less Restitution:</u>	
Return of assets (October 18, 1995)	2,928.45
Check reimbursement (August 2, 1995)	<u>875.00</u>
Total Restitution	<u>(3,803.45)</u>
Net Losses	<u>\$21,536.73</u>

These funds were misappropriated as described below.

- a. Costco Wholesale Purchases (\$17,655.53) - The superintendent processed 36 fraudulent disbursement transactions through the ESD's accounting system for personal purchases made at Costco Wholesale during the period December 4, 1991, through June 8, 1995. In addition, the frequency of purchases and dollar amounts of these fraudulent transactions increased significantly over this period of time. The cash register tapes supporting these fraudulent transactions were altered to conceal these losses. Details follow.

(1) The cash register tapes for these transactions were altered by excising the detail of the items purchased from the tapes. The top and bottom of these supporting documents were then taped back together and submitted for payment. In most cases, the only remaining information on file was the store identification, the total number of items purchased, and the total amount of the purchase.

The superintendent then prepared a false list of the items reportedly purchased on each transaction. Initially, the items purchased were listed on the cash receipt tapes in his own hand writing. However, he subsequently prepared a separate

hand-written list of the items purchased.

(2) In four instances, the superintendent obliterated or altered the number or the name of items purchased on the cash register tapes. In almost all other instances, the number of items purchased according to the superintendent's hand-written list did not agree with the number of items purchased according to the Costco Wholesale cash register tape. During an interview on August 2, 1995, the superintendent admitted that the Costco Wholesale cash register tapes were accurate and correctly reflected the number of items purchased on each transaction.

(3) Almost all purchases from Costco Wholesale were made by check from the revolving fund. However, the superintendent made one purchase by using a manual warrant on December 3, 1993. The cash register tape from this transaction indicated that \$125.85 was received as "cash back" from Costco Wholesale. However, these funds were not subsequently reimbursed to the ESD. In addition, this manual warrant was not approved by the board of directors.

(4) Two of these fraudulent transactions were recorded as expenditures for a Franklin Safe Schools Project Grant in 1994-95. These unallowable costs are shown in the accompanying Schedule of Questioned Costs.

(5) During an interview on August 2, 1995, the superintendent could not provide any reasonable explanation for the alteration of the Costco Wholesale cash register tapes. He denied that any of these merchandise purchases were for his own personal use. However, when questioned about the frequency and amount of these transactions, he stated that perhaps these purchases weren't the best use of public resources. In addition, he stated that these purchases weren't in the best interests of the ESD.

There were at least two additional altered cash register tapes on file at the ESD from this vendor. These transactions are valued at \$1,716.52 and represent the falsification of public records. However, this amount has not been included in the total loss reported in this case because the vendor was not able to provide us with a file copy of the cash register tapes for these transactions.

The loss amount reported for this vendor also does not include any monetary consideration for the miscellaneous items which the superintendent returned to the district on October 18, 1995. The ESD has indicated that all returned items have no monetary value or possible future use at the district.

b. Asset and Merchandise Purchases (\$3,086.57) - The superintendent purchased assets and merchandise for his own personal use during the period May 1, 1993, through April 30, 1995. The staff could not locate these items in any of the ESD's offices.

(1) Big Screen TV and VCR (\$2,766.91) - The superintendent purchased a big screen TV and VCR from Deranleau's for his own personal use in May 1993. This capital outlay purchase was not approved by the board of directors as required. During an interview on August 2, 1995, the superintendent denied that these assets were at his home. However, he subsequently returned the TV and VCR to the ESD on October 18, 1995. These returned items were originally purchased for \$2,766.91 and can apparently be used by the ESD.

(2) General Merchandise (\$319.66) - The superintendent purchased general

merchandise from Eagle Hardware for his own personal use in April 1995. This merchandise included a gift certificate, line-trimmer, spreader, fertilizer, industrial lawn edging, tank sprayer, and a rhododendron plant. During an interview on August 2, 1995, the superintendent stated that he had the gift certificate in his possession, but denied that the remaining assets were at his home. However, he subsequently returned most of these items to the ESD on October 18, 1995. The returned items were originally purchased for \$161.54; however, they represent surplus assets which are of no value to the ESD.

- c. Personal Gasoline Purchases (\$2,269.11) - The superintendent was reimbursed twice for gasoline when he used his personal vehicle for travel on official business during the period December 20, 1991, through July 25, 1995. An ESD Chevron credit card was first used to purchase gasoline for his personal vehicle. The superintendent then filed his monthly travel voucher to receive reimbursement for the use of his personal vehicle based upon the number of miles driven. This travel reimbursement covers all costs of operating a personal vehicle, including the cost of gasoline. During an interview on August 2, 1995, the superintendent admitted that gasoline purchases recorded on the ESD Chevron credit card in his possession were for his own personal use.
- d. Personal Vacation Expenses (\$1,820.18) - The superintendent took personal vacations at the expense of the ESD during the period July 1, 1991, through July 31, 1995.

(1) Van Rental Fee (\$555.54) - During the period July 5-10, 1991, the superintendent and two other individuals rented a van for their own personal use on a joint vacation. One of these individuals was an ESD employee, while the other was an employee of Columbia School District No. 400.

During an interview on August 2, 1995, the superintendent denied that this event occurred. However, the other two individuals confirmed that the vacation did occur, and that they paid their share of these van expenses to the superintendent. At the time the van rental charges were processed for payment, the superintendent told the accounting staff that he would reimburse the ESD for these personal expenses. However, he did not subsequently make this reimbursement.

(2) Meadowlake Resort Rental Fee (\$1,264.64) - In January 1995, the ESD made an advance payment for the superintendent's resort rental fees during the period June 27, 1995, to July 1, 1995. During an interview on August 2, 1995, the superintendent stated that this resort fee covered the cost of his attendance at an "informal" conference on violence prevention with other school officials from this region of the United States. However, there were no supporting conference documents, brochures, agendas, or attendance lists to indicate what official purpose was served by this event. Therefore, the entire cost of this resort fee has been questioned.

The resort rental fee was \$304 per night, and included a three bedroom, three bath villa with king bed in two master suites, queen bed in the guest room, queen sofa sleeper in the living room, and a barbecue and hot tub on the deck. This represented an excessive hotel room rental charge for a government employee.

While the superintendent's family accompanied him on this trip, the ESD had not been reimbursed for any personal expenses associated with this event. After an interview on August 2, 1995, the superintendent reimbursed \$875 to the ESD for his personal expenses on this trip. The method of determining this amount was

not specified.

- e. Unauthorized Travel Expenses (\$508.79) - The superintendent filed several false travel vouchers at the ESD during the period May 1, 1993, through July 31, 1995.

(1) Duplicate Travel Vouchers (\$284.00) - The superintendent participated on a superintendent search committee on behalf of the Washington State School Director's Association (WSSDA). When superintendent interviews were conducted, he filed a travel voucher with WSSDA to receive reimbursement for the use of his personal vehicle based upon the number of miles driven. However, he also claimed reimbursement of these same expenses on his monthly travel vouchers at the ESD. Our review disclosed that the superintendent processed duplicate travel claims for four trips during the months of May 1993, July 1993, and July 1995.

(2) Mileage Claims During a Period of Annual Vacation (\$28.00) - The superintendent claimed reimbursement for mileage for a trip to Pasco on July 1, 1993. However, his vacation request form for the period June to July 1993 indicated that he was on vacation on that date. The superintendent was not entitled to reimbursement for mileage while in vacation status (i.e., non-duty time).

(3) Excessive Hotel Costs (\$79.20) - The superintendent claimed reimbursement for excessive hotel costs on his travel voucher for the months of November 1993 and June 1995.

(a) WSSDA Conference (\$46.20) - The superintendent and five other members of the board of directors stayed at the Ridpath Hotel in Spokane on November 18 and 19, 1993. While all of these hotel reservations were made a month in advance, the cost of the superintendent's room was \$23.10 per day higher than the other individuals who attended this conference. The hotel was not able to determine whether this increased room charge was due to double occupancy of the room. However, the room was a suite.

(b) Washington Association of School Administrators (WASA) Conference (\$33.00) - The superintendent stayed at the Red Lion Inn in Spokane on June 24, 25, and 26, 1995. All hotel costs for this stay were direct billed to the ESD. The hotel bill indicates that two people occupied the room during this period. The superintendent's room cost was \$11.00 per day higher than the single occupancy rate due to the number of people in the room.

(4) Duplicate Meal Costs and Unauthorized Personal Expenses (\$117.59) - The superintendent claimed reimbursement for duplicate and unauthorized meal costs on his travel voucher for the months of November 1993 and June 1995.

(a) WSSDA Conference (\$71.88) - The superintendent and five other members of the board of directors stayed at the Ridpath Hotel in Spokane on November 18 and 19, 1993. At the conclusion of their stay, each person charged all their costs for meals, parking, and telephone calls on their personal credit cards because these incidental expenses would normally be reported on their monthly travel voucher. The cost for the hotel room and tax was then direct billed to the ESD.

The superintendent reported these incidental expenses on his November 1993 monthly travel voucher as the cost of a hotel room by submitting his credit card charge slip as the supporting document for this transaction. This represented a false entry on his travel voucher. In addition, the meal costs shown for November 18 and 19, 1993, (\$71.88) which were included in this amount also represented a duplicate charge for meals because these costs had already been itemized by date and meal on the superintendent's monthly travel voucher.

(b) WASA Conference (\$39.71) - The superintendent stayed at the Red Lion Inn in Spokane on June 24, 25, and 26, 1995. All hotel costs for this stay were direct billed to the ESD. The cost of two meals shown on the hotel bill for June 24 and 25, 1995, represented a duplicate charge for meals because these costs had already been itemized by date and meal on the superintendent's monthly travel voucher. In addition, a meal on June 26, 1995, included the cost of two alcoholic beverages. Reimbursement for the cost of alcoholic beverages is prohibited by the *Budgeting, Accounting and Reporting System* (BARS) manual.

(c) McCall, Idaho, Conference (\$6.00) - The resort invoice for this June 1994 conference included some charges for the superintendent's personal expenses. At the time this document was processed for payment, he annotated the invoice with a hand-written note indicating that he had reimbursed the ESD \$6.00 for these expenses. However, he did not subsequently make this reimbursement.

During an interview on August 2, 1995, the superintendent could not remember whether he had ever reimbursed the ESD for the amount of these personal expenses.

When we discussed these irregularities with the superintendent on August 2, 1995, he admitted that he had falsified some accounting records and made mistakes in judgment. He also stated that he had processed some marginal transactions which had now been brought to his attention. Members of the board of directors immediately placed the superintendent on administrative leave. He subsequently resigned on November 30, 1995.

Article XI, Section 14 of the Washington State Constitution states:

Private use of public funds prohibited. The making of profit out of county, city, town, or other public money, or using the same for any purpose not authorized by law, by any officer having the possession or control thereof, shall be a felony, and shall be prosecuted and punished as prescribed by law.

RCW 9A.56.030 states:

Theft in the first degree. (1) A person is guilty of theft in the first degree if he commits theft of:

(a) Property or services which exceed(s) one thousand five hundred dollars in value; or

(b) Property of any value taken from the person of another.

(2) Theft in the first degree is a class B felony.

RCW 9A.60.020 states:

Forgery. (1) A person is guilty of forgery if, with intent to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument or;

(b) He possesses, utters, offers, disposes of, or puts off as true a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

RCW 9A.72.030 states:

Perjury in the second degree. (1) A person is guilty of perjury in the second degree if, with intent to mislead a public servant in the performance of his duty, he makes a materially false statement, which he knows to be false under an oath required or authorized by law.

(2) Perjury in the second degree is a class C felony.

RCW 40.16.020 states:

Injury to and misappropriation of record. Every officer who shall mutilate, destroy, conceal, erase, obliterate or falsify any record or paper appertaining to the officer's office, or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in the state penitentiary for not more than ten years, or by a fine of not more than five thousand dollars, or by both.

RCW 42.20.060 states:

Falsely auditing and paying claims. Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

ESD *Policy Handbook*, Paragraph 2031 states:

Capital outlay items costing in excess of \$1,000 not itemized in the budget must receive board approval prior to the issue of a purchase order.

Volume I, Part 3, Chapter 3, Section D, BARS manual states in part:

The legislative body of each municipality must pass an

ordinance or resolution to establish rules and regulations for the reimbursement of travel expense. There should be rules to cover all municipal officials and employees. The ordinance or resolution should discuss the municipal policy on tipping, charging expenses to the municipality, and it should prohibit reimbursement for personal expenses and entertainment . . .

The following internal control weaknesses allowed this misappropriation of public funds to occur and not be detected in a timely manner. The auditing officer function was performed at an inappropriate level within the organization.

- a. The superintendent acted as the auditing officer prior to March 1, 1995. Thus, the superintendent was responsible for authorizing claims for reimbursement which were submitted for payment during the majority of the period of this loss. This gave the superintendent the ability to circumvent the district's internal control procedures without detection by anyone else within the ESD. The superintendent position was too high in the organization for the auditing officer function.
- b. Responding to comments from our prior annual audit, district procedures were changed to designate the accounts payable clerk as the auditing officer after March 1, 1995. However, the accounts payable clerk position was too low in the organization for the auditing officer function.
- c. Responding to comments in our preliminary report on this special audit, the ESD established a new finance position and hired a controller in October 1995. The auditing officer function has been assigned to this new position.

The accounting staff was aware of many of these irregular transactions for several years and knew these transactions were inappropriate. However, they felt intimidated by the superintendent and feared the loss of their jobs if they made any attempt to bring these irregularities to the attention of management. Therefore, these activities were not reported to anyone for further investigation until several whistleblowers notified the Office of the State Auditor on July 10, 1995.

Finally, these fraudulent disbursement transactions were neither authorized nor approved by the board of directors.

We recommend the ESD seek recovery of the misappropriated \$25,340.18 and related audit/investigation costs from the superintendent and their insurance bonding company, as appropriate. We further recommend the Washington State Office of the Attorney General and the Walla Walla County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district employees is as follows:

Eastern Washington School District Insurance Group
United Pacific Insurance Company
Public Employee Dishonesty Policy
Policy No. U2158774
\$100,000 Per Loss, With \$1,000 Deductible Provision
September 1, 1994, to September 1, 1995 (Annual Policy Renewal)

We also recommend the ESD review overall accounting controls for disbursements,

correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

2. The Superintendent's Employment Contract With The Board Of Directors Was Falsified

At the direction of the superintendent, an employee falsified the superintendent's employment contract with the board of directors.

- a. The page containing item number 15 dealing with compensation for unused vacation days was retyped to change the wording of this paragraph and the number of vacation days of entitlement under this contract provision.
- b. Employees were aware of this irregularity and knew this action was inappropriate. However, the employee who falsified the contract felt intimidated by the superintendent and feared the loss of her job if she made any attempt to bring this irregularity to the attention of management. Therefore, this action was not reported to anyone for further investigation until several whistleblowers notified the Office of the State Auditor on July 10, 1995.

In addition, an addendum to the superintendent's 1993 employment contract was signed by only one board member. This addendum was not subsequently approved by the board of directors. As a result, it did not represent the contract which was officially approved by the board.

RCW 9A.60.020 states:

Forgery. (1) A person is guilty of forgery if, with intent to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument or;

(b) He possesses, utters, offers, disposes of, or puts off as true a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

RCW 40.16.020 states:

Injury to and misappropriation of record. Every officer who shall mutilate, destroy, conceal, erase, obliterate or falsify any record or paper appertaining to the officer's office, or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in the state penitentiary for not more than ten years, or by a fine of not more than five thousand dollars, or by both.

We recommend the Washington State Office of the Attorney General and the Walla Walla County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

We also recommend all addenda to the superintendent's employment contract be approved by the board of directors.

3. The ESD Should Refrain From Lending Its Credit And Giving Gifts Of Public Funds To Employees, Other Governmental Entities, And Private Organizations

Our review of selected disbursement transactions and operating procedures revealed that the ESD was lending its credit and giving gifts of public funds to employees, other governmental entities, and private organizations.

a. Lending of Credit - The superintendent and two other individuals rented a van for their own personal use on a joint vacation during the period July 5-10, 1991. Two of these individuals were ESD employees, while the other was an employee of Columbia School District No. 400. The ESD's credit was used for this transaction because the fee for the use of the van was charged to the ESD's car rental account.

b. Giving Gifts of Public Funds

(1) At the direction of the superintendent, the ESD made a donation of \$1,800 to the athletics/activities replacement fund of Columbia School District No. 400 on July 29, 1994. The school believed these funds were being personally donated by the superintendent and members of the board of directors after a levy failure. However, these funds came directly from the ESD. A hand-written phrase was added to the typed supporting document for this transaction to indicate that this was a "co-sponsorship" event. This representation was false, and was apparently added to the document after it was initially prepared.

(2) At the direction of the superintendent, the ESD made a gift of \$4,689.44 to the student intern program of Columbia School District No. 400 during the period September 11, 1994, through June 2, 1995. The ESD places student interns from Walla Walla Community College at various school districts within their geographic area of responsibility. The intern's stipend and travel expenses are usually paid by the ESD and then reimbursed by the school district involved. However, the cost of one intern during school year 1994-95 was never billed to or reimbursed by the school.

(3) The ESD allowed private groups and organizations to use their Walla Walla conference room for meetings and other general purposes. Since there was no charge for this service, the ESD did not recover their costs for such things as janitorial services and utilities. While there were no policies and procedures for the use of the Walla Walla conference room, there were some procedures for the use of the Pasco office facilities. Thus, the ESD was inconsistent in the application of its actual procedures for private groups and organizations which use their facilities.

(4) The ESD paid the annual Costco Wholesale membership fee for certain ESD employees and their spouses. In addition to the basic membership fee for the superintendent, Costco Wholesale provided a free membership for his spouse. However, the October 1993 renewal included the payment of \$75 in membership fees for five additional employees. The October 1994 renewal similarly included the payment of \$100 in membership fees for six additional employees and the spouse of one employee, and \$40 in additional fees which were not explained in the supporting documents for the disbursement transaction.

The ESD's Costco Wholesale membership was not renewed in October 1995.

(5) The district provided free copy and postage use (estimated in a written

agreement at \$2,400 value) to the Children's Home Society of Washington.

(6) The district provided free space in the Pasco office to the Council for Children.

(7) The district provided free secretarial services, postage, and copying which was performed by the district's receptionist at an estimated five hours per week. The ESD's superintendent had a verbal agreement with them to provide ten hours of service per week.

(8) The district purchased T-shirts for marathon runners in the annual fund raiser in the amount of \$1,683.83.

(9) Following is an example of additional donations made by the district at the direction of the superintendent:

(a) Paid the superintendent's Phi Delta Kappa dues (\$47).

(b) Donated \$75 to the WA Coalition of Sexual Assault.

(c) Donated the use of the district owned van and \$200 to the Walla Walla Community Hospice (for Camp Amanda).

(d) Donated \$1,000 to the Recreational Coalition.

(e) Donated \$50 to the YMCA swim team.

(10) The district paid \$400 a month to a person which was charged to the state portion of the Special Education Program for contractual services but appears to not have performed any services related to the Special Education Program or the ESD. The contractor works for and is housed at the county and was supposedly performing duties for a project called the Parent to Parent Program which is a county operated program.

Article VIII, Section 7, *Constitution of the State of Washington* states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation

RCW 9A.60.020 states:

Forgery. (1) A person is guilty of forgery if, with intent to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument or;

(b) He possesses, utters, offers, disposes of, or puts off as true a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

We recommend the Washington State Office of the Attorney General and the Walla Walla County Prosecuting Attorney review this matter and take whatever action is deemed

necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

We also recommend the ESD:

- a. Refrain from lending its credit and giving gifts of public funds to employees, other governmental entities, and private organizations in the future.
- b. Seek reimbursement of \$6,489.44 from Columbia School District No. 400 for gifts of public funds to the athletics/activities replacement fund and to the student intern program.
- c. Seek reimbursement of moneys paid to the contractor for the parent to parent program from Walla Walla County.
- d. Establish policies and procedures for the use of its office facilities by private groups and organizations, as well as establish a fee structure for providing this service to the general public.

4. The ESD Should Revise And Strengthen Internal Controls For Employee Travel To Ensure That All Disbursements Are For Authorized Purposes

The ESD needs to revise and strengthen internal controls for employee travel to ensure that all disbursement transactions are properly supported and for authorized purposes. Our review of disbursements for selected travel transactions revealed the following weaknesses.

- a. ESD travel policies and procedures were inadequate. As a result, it was not possible for anyone to review or audit the validity, accuracy, or completeness of many employee travel expenses reported on monthly travel vouchers.

(1) Employees were not required to record their departure and arrival times on their monthly travel voucher. Thus, it was not possible for anyone to determine whether an employee was entitled to many of the meals claimed for reimbursement.

(2) Employees were not required to submit any receipts for meal costs.

(3) Employees were not required to submit their hotel bill as the original source document for lodging costs. In some instances, the superintendent did not file any lodging receipts, or filed only a copy of his credit card receipt for lodging expenses. As discussed in Finding 1, this allowed the superintendent to file for reimbursement of duplicate and unauthorized travel expenses.

(4) When a hotel billed employee lodging expenses directly to the ESD, these supporting documents were not linked to the employee's monthly travel voucher during the review process to ensure that all expenses were accurately reported and reimbursed. As discussed in Finding 1, this allowed the superintendent to file for reimbursement of duplicate and unauthorized travel expenses.

(5) The ESD did not have review procedures in effect to ensure that only lodging expenses applicable to the employee were reimbursed. As discussed in Finding 1, this allowed the superintendent to file for reimbursement of excessive lodging expenses when more than one person occupied the room.

(6) The ESD did not have review procedures in effect to ensure that grant administrators were approving charges made to state/federal grant programs via travel vouchers.

(7) Travel vouchers were being used by the district to pay for personal service contracts, supplies, and equipment.

(8) Supervisory and/or prior approval for out of state meetings, conferences, etc., was not required.

- b. When an employee performs a function on behalf of another organization, a copy of their travel voucher to that organization was not required to be attached to their monthly ESD travel voucher to ensure that the individual's travel was accurately reported for reimbursement. As discussed in Finding 1, the superintendent filed duplicate travel expenses with both the Washington State School Directors' Association (WSSDA) and the ESD.

- c. The ESD did not have a policy to cover situations when an employee receives pay from another organization for performing a function during their normal duty

hours (i.e., such as jury duty or serving on a superintendent search committee). As discussed in Finding 1, the superintendent served as a member of a superintendent search committee on behalf of the WSSDA. However, he retained the fee for this function for his own personal use. Some ESD's preclude the superintendent from receiving payment for these services. Other ESD's allow the superintendent to accept the fee, but then require that these funds to be turned-in and recorded as miscellaneous income in the General Fund.

- d. The ESD reimburses employees during periods of travel by paying all actual expenses up to the state Office of Financial Management (OFM) per diem rates, rather than by paying per diem. During our review, we noted the district does not review for limit up to per diem rates, or did they even have a copy of the OFM rates to audit to. This method of reimbursing employees does not always encourage economical travel practices, and is very time consuming during processing for review and audit.

In addition, the ESD's existing travel policy allows payment of meals to employees when on ESD business outside their duty station "community." The result of this is that ESD employees may claim and receive payments for meals when working as few as eight miles from their assigned office location.

During the audit, the ESD adopted the state's per diem system as the method of reimbursing employees for future travel expenses.

- e. During our review of gasoline purchase transactions, we noted that the supporting documents for Chevron credit card purchases were inadequate for review and audit. Employees were not required to turn-in credit card charge slips to accounts payable for verification of accuracy and completeness. As a result, payments to Chevron were made directly from monthly billing statements. As discussed in Finding 1, this allowed the superintendent to use the Chevron credit card for his personal vehicle and then to also submit his monthly travel voucher to receive reimbursement for the use of his personal vehicle. Additional weaknesses noted were:

- (1) In addition, personal purchases (grocery items, etc.) were charged on the gas credit card.

- (2) The district did not maintain a trip log in the van to prove business use.

- (3) The district did not have a policy on the use and restrictions of the gas credit cards.

ESD Policy Handbook, Policy 1026, Travel, states:

Board members shall be reimbursed for reasonable expenses connected with ESD 123 business, and receive the state rate for mileage, when using their own car for authorized travel.

ESD Policy Handbook, Policy 5390, Staff Travel, states:

Staff travel must be authorized by the ESD Superintendent. A request by staff members to attend meetings shall be approved by the Superintendent prior to the meeting. The State rate (cents per mile) shall be paid when the employee uses his or her car for ESD approved travel. Staff members shall be reimbursed for reasonable expenses

connected with approved travel. Lodging and registration receipts are to be turned in as required by the State Auditor. (Expenses shall not exceed the daily state rate.) Staff members shall be reimbursed for meals while traveling on official business within ESD 123 except no reimbursement shall be made to staff for meals in the community of their designated home office.

We recommend the ESD review overall accounting controls for employee travel (including use of Chevron gas credit cards), revise and strengthen its travel policies and procedures, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

5. The ESD Should Strengthen Internal Controls For The Revolving Fund To Ensure That All Disbursements Are For Authorized Purposes

The ESD needs to strengthen internal controls for the revolving fund to ensure that all disbursement transactions are properly supported and for authorized purposes. Our review of the operation of the revolving fund revealed the following weaknesses.

- a. The checking account was reconciled monthly by the fund custodian rather than by a disinterested party. In addition, the date and initials of the person performing the reconciliation were not recorded on the bank statement.
- b. Accountability for the \$3,000 revolving fund imprest amount was not reconciled monthly when the bank reconciliation was performed.
- c. Voided checks were often destroyed. In addition, when voided checks had been signed and retained on file, the custodian's signature was not excised from the check.
- d. Checks were issued to "cash" or to a "blank" payee rather than issued to specific individuals or vendors. While these checks represent very high risk transactions, our review determined that all of these expenditures were valid and for authorized purposes.
- e. One check was used to obtain additional money to maintain an unauthorized petty cash fund for miscellaneous postage transactions. Supporting documents and receipts were not retained on file for these transactions.
- f. The superintendent occasionally entertained individuals from other public entities while performing official business at meetings and conferences. When these claims were made on behalf of others, the only supporting document on file was the restaurant receipt indicating the total amount of the expense. There was no detailed account of the circumstances surrounding the event to determine who was in attendance or what public purpose was served by the disbursement. These types of transactions occurred both in the revolving fund and on the superintendent's monthly travel voucher.
- g. As discussed in Finding 7, part-time employees, including the children of ESD employees, were paid by check from the revolving fund rather than through the payroll warrant system.
- h. The amount of the revolving fund was excessive. Expenditures in excess of \$17,000 per year were processed through this checking account. Many of these transactions could have been processed through the general warrant system.
- i. Revenue for a Federal Safe Schools Grant was received indirectly through the revolving fund checking account by electronic funds transfer rather than directly at the Walla Walla County Treasurer's Office. This procedure was changed during this audit.
- j. The supporting documents for disbursement transactions from the revolving fund were generally inadequate.

(1) Many transactions had no supporting documents or were based upon notes which indicated that a particular individual or vendor needed to be paid a certain amount. However, the purpose of these transactions was not always evident in

the file. Since there were no supporting documents or receipts for any of these transactions, the accounting staff had to prepare internal documents in order to enter them into the accounting system.

(2) As discussed in Finding 1, almost all of the fraudulent Costco Wholesale purchase transactions were paid by check from the revolving fund. The cash register tapes supporting these transactions had also been altered.

Volume I, Part 3, Chapter 3, Section D, of the BARS manual states in part:

The legislative body of each municipality must pass an ordinance or resolution to establish rules and regulations for the reimbursement of travel expense. There should be rules to cover all municipal officials and employees. The ordinance or resolution should discuss the municipal policy on tipping, charging expenses to the municipality, and it should prohibit reimbursement for personal expenses and entertainment

In addition, if an officer or employee is filing a claim on behalf of others, he or she must prepare a detailed account that includes:

- a. Names of the others who traveled, partook of meals, or otherwise incurred expenses.
- b. Whether they were municipal employees and, if not, who they were and what connection they had with municipal business. This should not be construed to permit promotional hosting.
- c. Who provided the lodging, meals or other services in question, dates and times.
- d. A detailed breakdown of amounts.
- e. Some statement sufficiently explicit to show what municipal business was being carried out when the expenses were incurred.

Volume I, Part 3, Chapter 3, Section E, of the BARS manual states in part:

The following are minimum requirements for the establishment and operation of petty cash accounts.

1. The governing body must authorize each petty cash account in the manner that local legislation is officially enacted, i.e., resolution or ordinance . . .
6. The governing body must include the authorized amount of all such petty cash in the local government's balance sheet.
7. If petty cash is disbursed, it must be replenished at least monthly by warrant or check payable to the custodian. The replenishment should be subject to the same review and approval as processed invoices. The replenishment must be by voucher with the appropriate receipts attached

ESD Policy Handbook, Paragraph 5880.6, Petty Cash, states:

Petty cash and Advanced Travel do not exist in ESD 123.

We recommend the ESD review overall accounting controls for the revolving fund, revise and strengthen its policies and procedures, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

6. The ESD Should Comply With The State Code Of Ethics Law For Municipal Officers

In September 1994 the ESD purchased equipment valued at \$1,974.78 from Pomeroy Pharmacy. A member of the ESD board of directors is a part owner of this company. Also, this capital outlay item was not approved by the board of directors as required.

The superintendent initiated this purchase while visiting the board member at the pharmacy on other official business. It was not a planned event, and the board member was hesitant about the transaction at the time. However, the superintendent assured him that there was nothing wrong with this business transaction. The board member stated that he was not aware that the transaction violated state law and board policy.

RCW 42.23.030 states in part:

No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any other person beneficially interested therein. This section shall not apply in the following cases

(6) The letting of any other contract . . . PROVIDED, That the total volume of business represented by such contract or contracts in which a particular officer is interested, singly or in the aggregate, as measured by the dollar amount of the municipality's liability thereunder, shall not exceed seven hundred fifty dollars in any calendar month

ESD Policy Handbook, Paragraph 2031 states:

Capital outlay items costing in excess of \$1,000 not itemized in the budget must receive Board approval prior to the issue of a purchase order.

ESD Policy Handbook, Policy No. 5870-5872, Vendor Relations, states:

No member of the board or employee of the district will accept gifts from any person, group or entity doing, or desiring to do, business with the district; and all business-related gratuities are specifically prohibited except nominal value advertising items widely distributed.

Employees are further prohibited from receiving assistance, gifts or enumerations of any kind from a vendor which they have reason to believe that they may at sometime deal within official capacity. Participation in the ESD transactions which may benefit an immediate family member are also prohibited.

We recommend the ESD comply with the state code of ethics law for municipal officers on future equipment purchases.

7. The ESD Should Properly Report The Earnings Of All Employees To Appropriate State And Federal Agencies

Part-time employees and certain other individuals who were improperly treated as independent contractors were paid through the general warrant system rather than through the payroll warrant system. In addition, this has been the ESD's practice for a number of years. Our review of payroll records and supporting documents for selected disbursement transactions revealed that the ESD did not:

- a. Have the proper payroll authorization documents on file for these individuals.
- b. Deduct or pay normal payroll taxes on compensation paid for these services.
- c. Report these wages to the appropriate state and federal agencies.
- d. Have personal service contracts on file. While these individuals were treated as though they were independent contractors, they did not meet the required "independence" criteria. In addition, when the amount of services to be provided exceeded \$1,000, these agreements were not approved by the ESD board of directors.

When part-time employees were paid by check from the revolving fund, these payments were reflected in the ESD's accounting records as revolving fund disbursements rather than as payroll transactions for employees. As a result, these payroll transactions could not be easily monitored or tracked by the accounting staff to ensure that all earnings were properly reported to both the individuals and the appropriate state and federal agencies.

Some of these part-time employees were children of ESD employees and board members, some of whom were still living in their parent's home. This practice could also violate the state's beneficial interest laws if the amount of earnings in any calendar month exceeded \$100.

One person who was hired for a position advertised by the ESD and who was on full PERS I retirement, is paid through a parent advocacy group (PAVE), who an agreement was made with, to process the employees monthly payroll for a fee, therefore, the ESD would be avoiding issues with the state retirement system.

In addition, another person who was hired during fiscal year 1995 as the district's fiscal office assistant, was previously paid on a personal service contract arrangement.

The voucher for one October 1993 independent contractor disbursement transaction was missing from the accounting files. A further review of that month's transactions revealed that 11 other vouchers were also missing from the files. These vouchers were not out of the file for any other research purpose at the time of our review.

RCW 42.23.030 states in part:

No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any other person beneficially interested therein. This section shall not apply in the following cases . . .

(5) The employment of any person by a municipality . . . for unskilled day labor at wages not exceeding one hundred dollars in any calendar month

RCW 50.04.140 states in part:

(1)(a) Such individual has been and will continue to be free from control or direction over the performance of such service, both under his or her contract of service and in fact; and

(b) Such service is either outside the usual course of business for which such service is performed, or that such service is performed outside of all the places of business of the enterprises for which such service is performed; and

(c) Such individual is customarily engaged in an independently established trade, occupation, profession, or business, of the same nature as that involved in the contract of service

Internal Revenue Service (IRS), Circular E, Publication 15, also provides that if the employer "has the legal right to control the method and result of the service," the individual is an employee.

IRS, Publication 937, further provides that it does not matter that a written agreement may take a position that employment determination factors used by the IRS do not apply, if the facts indicate otherwise. If an employer improperly treats an employee as an independent contractor, the person responsible for the collection and payment of withholding taxes may be held personally liable for an amount equal to the taxes that should have been withheld.

ESD *Policy Handbook*, Policy No. 2032 states:

Personal service contracts under \$1,000 may be approved by the ESD 123 superintendent. Only those in excess of \$1,000 need Board approval.

ESD *Policy Handbook*, Policy No. 5872, Vendor Relations, states:

Employees are further prohibited from receiving assistance, gifts or enumerations of any kind from a vendor which they have reason to believe that they may at sometime deal within official capacity. Participation in the ESD transactions which may benefit an immediate family member are also prohibited.

ESD officials stated that they were not aware of the legal requirements associated with these types of payroll transactions. Failing to properly recognize these individuals as employees exposes the ESD to possible liability for unanticipated unemployment claims, retirement payments, unpaid Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA) taxes, and penalties and interest resulting from unwithheld Federal taxes.

We recommend the ESD:

- a. Refrain from using the general warrant system for payroll purposes in the future.
- b. Analyze their disbursement records by name and calendar year for payroll

warrants, general warrants, and revolving fund checks to determine the total amount of earnings paid to part-time employees or certain other individuals who were improperly treated as independent contractors.

- c. Contact applicable state and federal agencies for assistance in determining the period of time that should be used for the purpose of payroll records reconstruction, as well as the procedures to use in reporting these payroll discrepancies to both the employees and the agencies.
- d. Retain all disbursement records in accordance with the required retention policy.
- e. Develop and adopt a code of ethics policy relating to all board members and employees of the district.

8. The ESD Should Properly Advertise All Job Openings To Attract The Most Qualified Personnel

The superintendent hired his son-in-law as a fiscal officer assistant at the Pasco office on June 6, 1995, without formally advertising this position. The individual also completed a job application form for employment after he reported for work on July 1, 1995.

During an interview on August 2, 1995, the superintendent stated that this new position had not been formally advertised; however, he knew that his son-in-law was qualified for the position before he was hired. He also stated that the ESD did not always advertise all job openings as required by ESD policy and procedures.

Members of the board of directors confirmed that they had discussed establishing a new finance office position during a board meeting. However, no specific authority was given to the superintendent to hire anyone for the position. In addition, the board was not aware that the person hired was the superintendent's son-in-law.

The board of directors terminated the employment of the fiscal officer assistant on September 30, 1995.

ESD *Policy Handbook*, Policy 5230.2, Position Openings, states:

When a certificated position vacancy occurs, the college and university Placement Departments serving this area will immediately be notified of the vacancy with particulars listed. All applicants and the Placement Bureaus will be notified when the position is filled. Position vacancies for classified employees will be advertised in newspapers and the Employment Security Agency in the area of the location of the position. Following a review of the credentials the candidates who appear to be best suited for a given position will be interviewed.

We recommend the ESD properly advertise all job openings in the future to attract the most qualified personnel.

9. The District Should Improve Controls Over Cash Receipting And Depositing Procedures

Our review of the district's accounting for cash receipting disclosed inadequate internal controls and noncompliance with statutory requirements. Specifically, we noted the following weaknesses:

- a. Moneys Received by Mail: Checks received in the mail are not opened and logged and are distributed to different locations prior to being submitted to the person making the deposit.
- b. Receipting All Funds: Not all funds received at the Walla Walla office are receipted. Prior to March 1995, the district only receipted certification fees. Since then, they began receipting all moneys received except for those that are billed through the billings system.
- c. Depositing Funds Timely: Cash receipts were not always deposited in a timely manner. There are times when moneys are held up to a month before being deposited. An example is certification fees, which are set aside from other receipts and not deposited until a certain number of certifications has been reached.
- d. Money Found in Office: One receipt dated August 23, 1995, was for a total of \$561 in cash. The purpose of the receipt was "money found in drawers." District personnel indicated that this was an employee fund from sales of pop, shirts, and other items, but there were no records maintained to prove where the moneys came from.
- e. Mode of Payment: Mode of payment is not always indicated on the receipts or invoice copies (for those funds not receipted), therefore, we cannot determine whether funds are deposited intact. Also, the mode of payment on the receipts is not reconciled to the deposit slip.
- f. Rental Agreement Forms: The forms the district began using to charge rent for facilities in August 1995 are not numerically controlled and do not indicate a receipt number to provide an audit trail.
- g. Decentralized Cash Receipting: Moneys collected at the Kennewick and Pasco offices are collected by several different people using several different procedures for collection and then handing over their funds to one person for deposit. This causes internal controls to be difficult to establish, due to the number of people involved in the process.
- h. Decentralized Bank Accounts: The Kennewick and Pasco offices had bank accounts opened locally for deposit of locally collected moneys, to replace their prior procedures of sending the funds to the Walla Walla office. The procedures for transmitting the funds is to write a check out the of local bank accounts and transmit to the Walla Walla office to be deposited into their bank account. The additional issuance of checks increases the risk of errors and/or irregularities from occurring and going undetected in a timely manner. In addition, these funds are currently being transmitted monthly. To establish better controls, this should be done on a weekly basis.
- i. Issuing of Receipt Books: When the district issues receipt books to the Walla Walla office and the decentralized locations (Kennewick, Pasco, and College Place), the ones issued and used should be turned in to the central office.

RCW 43.09.200 states in part:

. . . The system shall exhibit true accounts and detailed statements of funds collected, received . . . for account of the public for any purpose whatever, and by all public officers, employees, or other persons . . . The accounts shall show the receipt . . . and the income . . . and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

In addition, RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him with the treasurer of the taxing district once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible.

By not maintaining proper internal controls, there are no assurances that all the moneys collected by the district were properly remitted intact and timely for deposit to the districts accounts. Also, these conditions increased the risk that errors and/or irregularities could occur and not be detected in a timely manner.

These conditions existed because the district's management did not have written policies and procedures over cash receipting and depositing to ensure adequate controls were in place and functioning. Also, district management was not monitoring the cash receipting and depositing process.

We recommend that the district establish controls over cash receipting and depositing to correct the weaknesses noted above, and specifically that the district:

- a. Receipt all moneys collected using the districts prenumbered receipt books.
- b. Deposit moneys receipted at least once a week in order to comply with statutory requirements.
- c. Indicate the mode of payment on all moneys received, and assign someone outside of the districts receipting and depositing process to reconcile the mode of payment on the receipts to the deposit slip.
- d. Collect all issued and used receipt books from the decentralized locations prior to issuing new ones, and only issue an amount of receipt books need for current use.
- e. Numerically control rental agreement forms, and indicate the receipt number on the forms to provide an audit trail.
- f. Assign someone outside of the cash receipting and depositing functions to open all mail, stamp date received, and log in all checks received by payee, check number, check date, and amount. This log should then be used to reconcile to the deposit being made. This applies to all locations.
- g. The Kennewick and Pasco offices should designate one person as a cashier with

one backup assigned when the main cashier is not available. This person should receipt all cash, write receipts, and prepare deposits. Also, they should assign someone outside of the receipting and depositing process to reconcile mode of payment received on the receipts to the deposit slip and the mail log.

- h. The Kennewick and Pasco offices should have their money transmitted to the Walla Walla bank account by other methods (i.e., EFT) rather than issuing checks to the Walla Walla office. Also, these funds should be transmitted weekly rather than monthly.

10. The District Should Develop Adequate Segregation Of Duties Over Accounts Receivable And Cash Receipting And The District Should Implement The Use Of An Accounts Receivable Control Account

During our audit of the district billings and cash receipting systems, we noted the following weaknesses in its internal controls and segregation of duties:

- a. There is a lack of segregation of duties between cash receipting, billing, accounts receivable, depositing, preparation of journal vouchers for posting revenues, and reconciliation of bank accounts.
- b. There is no accounts receivable control accounts maintained to reconcile the month-end balance to what was billed and what was received during the month.
- c. Various departments initiate and send out their own billings without processing them through fiscal.

By allowing one person to perform all of the accounts receivable and cash receipting functions, and, in addition, not maintaining an accounts receivable control account, the district increases its risk that errors and omissions could occur and not be detected in a timely manner.

In addition, by not having a centralized billing system, it is difficult to ensure that all billings have been properly accounted for and recorded in the districts accounting records.

We recommend the district segregate the duties for accounts receivable and cash receipting, implement and maintain an accounts receivable control account, and centralize all invoice billing activity to the Walla Walla office.

11. The District Needs To Improve Internal Controls Over All Contracts And Agreements

During our review of contracts and agreements, we noted the following weaknesses:

- a. We were not able to obtain copies of all contracts and agreements the district currently has in place, to determine if there were, in fact, contracts developed and signed, or if contracts have been properly updated.
- b. In some instances, agreements were made between individuals and the superintendent without any written form of documentation (verbal only).
- c. We were not able to obtain a copy of any type of interlocal cooperative agreement between the local school districts and ESD 123 for the operation of the library/media center. Per inquiry, there is no written agreement.
- d. Several personal service contracts were being paid, with no evidence of a contract on file. (Other concerns regarding personal service contracts are addressed in more detail in the employee earnings finding.)
- e. Contracts and agreements appear to be initiated and implemented at decentralized locations, without ever going through the superintendents office for review and approval.
- f. Payments for contractual services are being made without a supporting contract/agreement on file.

RCW 43.09.200 states in part:

... The state auditor ... shall formulate, prescribe, and install a system of accounting and reporting ... the accounts shall show the ... use ... of all public property. ... and the ... documents kept, necessary to isolate and prove the validity of every transaction ... (Emphasis ours.)

Chapter 39.34 RCW regarding interlocal agreements requires that a written agreement be developed and action taken by the board of each of the participating agencies for approval.

These conditions were caused by the district's lack of written policies and procedures over the proper processing of contracts and agreements.

We recommend the following:

- a. The district maintain and administer all contract/agreement files centrally in the Walla Walla office and not allow individual departments to initiate contracts without first being approved by the superintendent's office.
- b. The district implement contracts/agreements for all services presently being performed and not allow any charges to be made to contractual services without a preapproved contract/agreement on file with the superintendent's office.

12. District Officials Should Only Charge Allowable Expenditures To Their Worker's Compensation And Unemployment Compensation Pools

During our review of charges made to the worker's compensation and unemployment compensation pools, we noted the following unallowable charges:

a. Building payments were charged to the Worker's Compensation Fund in the amount of \$29,525 during fiscal year 1995 and in the amount of \$60,956 during fiscal years 1993 and 1994. In addition, roof repairs were charged to this fund in the amount of \$6,898. We noted that these have been paid back to the fund through the year end journal entries closing process.

b. Salaries were improperly charged to both the Worker's Compensation and Unemployment Compensation Funds for the following employees and amounts:

James Harris's salary for July and August of 1995 were partially charged to the Workmen's Compensation Fund for \$1,925 (this does not include the benefits applicable to this salary), and he did not perform identifiable functions that should have been charged directly to this fund.

Tami Tucker's salary for fiscal year 1995 were partially charged to the Workmen's Compensation Fund for \$6,647.52 (this does not include the benefits applicable to this salary), and she did not perform identifiable functions that should have been charged directly to this fund.

John Yurik's and Teresa Hall's salaries were partially charged to both the Workmen's Compensation Fund and the Unemployment Compensation Fund in the following amounts:

	<u>Unemployment</u>	<u>Worker's Comp</u>
John - Salaries	(10%) \$ 6,675	(20%) \$13,350
Benefits	1,434	2,869
Teresa - Salaries	(20%) 5,385	(10%) 2,692
Benefits	<u>1,655</u>	<u>828</u>
Total	<u>\$15,149</u>	<u>\$19,739</u>

These salaries should have been included as part of the 9 percent indirect charges that were made, and therefore, not charged directly.

These charges occurred due to guidance given to accounting employees by the previous management.

We recommend the district only charge allowable expenditures to the worker's and unemployment compensation funds.

13. The District Should Improve And Strengthen Control Procedures For Processing And Approving Claims Vouchers

During our audit of claims vouchers, we noted the following weaknesses:

- a. Purchase orders were not used on a consistent basis.
- b. Purchase orders were not filed with the applicable vouchers, therefore, weakening the audit trail.
- c. Supply and equipment request forms were dated subsequent to the vendors invoice date.
- d. There was no evidence of supplies and equipment being verified as received at the time of delivery.
- e. Receiving reports, when used, are not compared to purchase order and invoice prior to payment being made.
- f. As noted during the prior audit, the superintendent as auditing officer were incompatible duties. The district then assigned the accounts payable clerk as auditing officer, which causes a lack of segregation of duties.
- g. The financial officer did not review expenditures on a consistent basis.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems.

Without adequate internal controls in place, the risk is increased that errors and/or irregularities could occur and not be detected in a timely manner.

We recommend:

- a. Purchase orders be used for all claims vouchers.
- b. Purchase orders and all other applicable support documentation be filed with the claims voucher.
- c. Supply and equipment request forms be prepared and approved prior to the request being made.
- d. Verify that supplies and equipment have been received on the packing slip/receiving report.
- e. Receiving reports should be compared to the invoices and other supporting documentation prior to payment being made.
- f. An adequate position should be assigned as auditing officer (usually the finance officer) and all expenditures should be reviewed and approved prior to processing by fiscal.

14. District Officials Should Improve Internal Controls Over General Ledger Journal Entries Processing

During our review of journal entries, we noted the following weaknesses in internal controls:

- a. They do not contain adequate supporting documentation.
- b. There was no evidence of review and/or approval by a person other than the preparer.
- c. There was no evidence to show that the journal entries were entered into the accounting system, to prevent one being missed or entered twice.

Without these controls in place, there is a greater potential for errors and irregularities to occur in the financial reporting system and not be detected in a timely manner.

We recommend all journal entries include review and approval prior to entry into the accounting system, contain adequate supporting documentation, and show evidence of being entered into the accounting system.

15. Adequate Accounting For Fixed Assets Should Be Established And Monitored And An Annual Physical Inventory Should Be Conducted

The district does not have adequate controls in place to ensure that fixed assets are safeguarded and properly accounted for. We noted the following weaknesses:

- a. Prior to spring of 1995, the district did not have an inventory of fixed assets.
- b. Not all locations had a fixed asset listing available.
- c. The Kennewick and Pasco offices do not have any fixed assets tagged.
- d. Since the physical inventory was performed, the records have not been updated for purchases, deletions, etc.
- e. Detail asset records do not indicate cost, acquisition date, or source of funding.
- f. The district does not have an adequate system of tracking fixed assets being moved from one location to another.
- g. The district allows community groups to have access to the office after hours for meetings, which includes access to computer equipment, TVs, VCRs, etc. Also, when arriving on site for the audit, copy machine and postage meter codes were posted on the walls, therefore, the general public had access to use the equipment. Management had the codes removed immediately.
- h. During review of the grant programs, some of the fixed asset purchases noted were not contained on any of the districts fixed asset inventories.
- i. There is no reconciliation of purchases recorded in the district's accounting system.

Inadequate control over fixed assets were included in the previous exit conference, and have not been completely resolved.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems.

Accountability for fixed assets is required for all local governments. An adequate fixed asset accounting system enables government agencies to meet the statutory requirements to produce adequate records and reports and to safeguard assets properly.

These conditions exist because the district has experienced a change in management and prior management did not adhere to the recommendations in the prior audit to implement the needed changes in the accounting and internal control systems for general fixed asset accounting and inventory control. Such weaknesses could allow irregularities and errors to occur and not be detected in a timely manner during the normal course of business.

We recommend that management establish an adequate fixed asset accounting system and conduct an annual inventory of assets in compliance with statutory requirements.

EDUCATIONAL SERVICE DISTRICT No. 123
Walla Walla County, Washington
September 1, 1994 Through August 31, 1995

Schedule Of Federal Findings

1. The ESD Should Establish A System Of Administrative Controls To Ensure Compliance With Federal And State Grant Requirements

The ESD did not have a comprehensive system of administrative controls to facilitate the identification and monitoring of federal and state grant requirements. Time and effort reports were not used as the basis for employee payroll charges, nor did grant administrators monitor programs for the status of the grant budget, expenditures charged, and program income derived from grant activities.

The ESD often used journal entries to transfer expenditures between grants and budget categories without accounting support or evidence of review by the grant administrators. It appears that the expenditures were moved amongst grants and expenditure object codes to fit available budgets. In the instances reviewed, expenditures under one grant would have likely been allowable under the other. However, the journal entries used to transfer the expenditures were not supported by accounting records indicating specific costs moved.

The "Common Rule" for *Uniform and Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by the U.S. Office of Management and Budget (OMB) Subpart C, Section .40(a) states:

Monitoring by grantees. Grantees are responsible for managing the day to day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved.

OMB Circular A-87 requires a time reporting system which documents actual time charged to federal programs. This system is to be used as the basis for time charged, in whole or in part, directly to federal awards. OMB A-87 also states, in part, that all costs claimed on federal grant projects must be adequately supported by vendor invoices or other appropriate documentation.

In the absence of a system that meets state and federal requirements, the ESD is not able to ensure that applicable grant requirements are being met. Without adequate supporting documentation the district is unable to substantiate the allowability of costs claimed under grant awards.

We recommend the district implement a comprehensive system of administrative controls for state and federal grant projects. This system should require program administrators to monitor grant budget and any necessary revisions, expenditures, and program income derived from grant activities.

We also recommend the implementation of a time reporting system that complies with

OMB Circular A-87 for all federal programs that are charged through payroll.